AP Microeconomics
Test: Basic Economic Concepts
Instructor's Version

1. Opportunity Costs

A. Explain how you would make the decision to take an honors class rather than a regular class. Make sure to use the terms self-interest and benefits in your response. (5 points)

Acting in his/her self-interest, a student will make the decision based on which class gives them the most benefits. If, for example, they value their free time more than they value the benefits of the advanced class, they may decide to take the regular class. If they value how the advanced class will look on their transcript more than their free time, they may decide to take the advanced class.

5 points for including both terms in a logical explanation

B. What costs are involved in the decision to take an honors class rather than a regular class? (5 points)

The main cost associated with taking an advanced class is time. Students will have to spend more time on homework. Other possibilities: They may feel also that what they could learn in the regular class would be a cost. Or, some students might feel that if their friends are in one class and they're in another, there would be a sacrifice of time spent with them if they were in different classes.

5 points for any of these explanations, but the concept of time must be included for full credit

2. Suppose you're absolutely confident that you've misplaced a $5 bill somewhere in your neighborhood. How long will you search for that money? Explain your answer. Use the concept of sunk costs in your explanation. (6 points)

Depending on the value of your time, you will continue to search for the $5 as long as you expect to find it soon. So, if you value your time at $20 an hour, you will search as long as you expect to find it within the next 15 minutes. At any point, the time you've already spent searching is a sunk cost, and will not impact your decision to continue to search.

key ideas:
sunk costs are unrecoverable costs 3 points
search as long as expected benefit exceed expected future cost 3 points

3. Absolute and Comparative Advantage

A. What is the difference between absolute and comparative advantage? (5 points)

Absolute advantage is being able to produce goods using fewer resources than someone else uses. Comparative advantage is being able to produce something for a lower opportunity cost, or giving up less alternative production.

5 points for both explanations. Take 2 off if one is omitted, or if the concept of opportunity cost is not included in the definition of comparative advantage.

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B. If a person or country has a comparative advantage in an activity, what should they do to maximize their position in a larger market? (5 points)

They should produce only the good for which they have a comparative advantage and trade with other countries for the other goods they need.

3 points for concentrating on the good for which they have a comparative advantage; 2 points for the part on trading to get the other goods they need.

4. Positive and Normative Economics

A. Write a positive economic statement about poverty. (5 points)

An example of a positive economic statement would be, "Fifteen percent of the nation's population lives below the poverty level established by the federal government."

5 points for a statement that is purely positive and has no normative elements

B. Write a normative economic statement about poverty. (5 points)

An example of a normative economic statement would be, "People who live in poverty need to be supported by the government."

5 points for a statement that is purely normative and has no positive elements

5. Production Possibilities Frontier

A. Draw a hypothetical PPF for the New Moon Colony. The Colony can produce either hydrogen or helium. Assume that the law of increasing opportunity costs applies to the Colony. (3 points)

The quantity of hydrogen on one axis, helium on the other, and a concave PPF.

minus 1 point for each missing label, up to 3 points
minus 1 point for straight line PPF

B. Indicate three points on your graph: one that shows an efficient use of resources, one that shows an inefficient use of resources, and one that shows an unattainable use of resources. Use the following letters to mark your points.

U = unattainable
E = efficient
I = inefficient (3 points)

U = unattainable -- outside the PPF
E = efficient -- on the PPF
I = inefficient -- inside the PPF

1 point for each

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C. Draw a new graph, and show the change in the PPF when new helium deposits are found. (3 points)

The intercept for helium should increase, but hydrogen should remain the same. The curve should continue to have a concave shape.

1 point for each: the change in intercepts, and the concave shape

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